

AUDIT REPORT

TOWN OF WAPANUCKA, OKLAHOMA

JUNE 30, 2014

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: [KERSHAWCPA.COM](http://KERSHAWCPA.COM)  
E-MAIL: [REK@KERSHAWCPA.COM](mailto:REK@KERSHAWCPA.COM)

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

TOWN OF WAPANUCKA, OKLAHOMA  
JUNE 30, 2014

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-6
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
EXHIBIT A STATEMENT OF NET POSITION - MODIFIED CASH BASIS	7
EXHIBIT B STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	8
Fund Financial Statements:	
EXHIBIT C BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	9
EXHIBIT D STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	10-11
EXHIBIT E STATEMENT OF NET POSITION - PROPRIETARY FUND - MODIFIED CASH BASIS	12
EXHIBIT F STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND - MODIFIED CASH BASIS	13
EXHIBIT G STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	14
NOTES TO THE FINANCIAL STATEMENT	15-26

TOWN OF WAPANUCKA, OKLAHOMA  
JUNE 30, 2014

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	27-28
SCHEDULE OF FINDINGS	29-31

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

## INDEPENDENT AUDITOR'S REPORT

To the Town Council  
Town of Wapanucka, Oklahoma

### *Report on the Financial Statements*

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Wapanucka, Oklahoma, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and adverse audit opinions.

## *Basis for Qualified Opinion*

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the Governmental Activities is not readily determinable.

## *Qualified Opinion*

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Wapanucka, Oklahoma, as of June 30, 2014, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

## *Basis for Adverse Opinion on Business-Type Activities*

The utility billing software for the PWA reported \$106,003.37 in total receipts for the year ending June 30, 2014. The QuickBooks file and bank statements for the PWA reported only \$98,263.75 for "Water Bills." This leaves a difference of \$7,739.62. The amount that should be reported in the financial statements resulting from modified cash basis transactions or events for the business-type activities is not reasonably determinable.

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

## *Adverse Opinion*

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion paragraph, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the modified cash basis financial position of the business-type activities of the Town of Wapanucka, Oklahoma, as of June 30, 2014, or the respective changes in modified cash basis financial position or, where applicable, cash flows thereof for the year then.

## *Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2014, on our consideration of the Town of Wapanucka's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Wapanucka's internal control over financial reporting and compliance.

## *Basis of Accounting*

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC

December 9, 2014

TOWN OF WAPANUCKA, OKLAHOMA  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	2014 Total
<b><u>ASSETS</u></b>			
<b><u>Current Assets:</u></b>			
Cash in Bank - Unrestricted	\$ 56,458	\$ 13,588	\$ 70,047
Cash in Bank - Restricted	-	6,003	6,003
Total Current Assets	56,458	19,591	76,049
<b><u>Capital Assets:</u></b>			
Capital Assets, Net of Accum. Depr.	-	-	-
Total Capital Assets	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 56,458</b>	<b>\$ 19,591</b>	<b>\$ 76,049</b>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities:</u></b>			
Customer Deposits	\$ -	\$ 6,003	\$ 6,003
Notes Payable - Current Portion	-	-	-
Total Current Liabilities	-	6,003	6,003
<b><u>Long-Term Liabilities:</u></b>			
Notes Payable	-	-	-
Less: Current Maturities	-	-	-
Total Long-Term Liabilities	-	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>6,003</b>	<b>6,003</b>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	-	-	-
Restricted for:			
Debt Service	-	6,003	6,003
Other Purposes	-	-	-
Unrestricted	56,458	7,586	64,044
<b>TOTAL NET POSITION</b>	<b>56,458</b>	<b>13,589</b>	<b>70,047</b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$ 56,458</b>	<b>\$ 19,591</b>	<b>\$ 76,049</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF WAPANUCKA, OKLAHOMA**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
General Government	\$ 34,573	\$ -	\$ -	\$ -	\$ (34,573)
Public Safety	5,746	-	4,474	-	(1,272)
Highways & Streets	-	-	-	-	-
Debt Service - Interest	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Total Governmental Activities	<u>40,320</u>	<u>-</u>	<u>4,474</u>	<u>-</u>	<u>(35,846)</u>
<b>Business-type activities:</b>					
Water, Sewer & Sanitation	105,624	99,661	-	-	(5,963)
Total Business-type Activities	<u>105,624</u>	<u>99,661</u>	<u>-</u>	<u>-</u>	<u>(5,963)</u>
<b>Total</b>	<u>\$ 145,944</u>	<u>\$ 99,661</u>	<u>\$ 4,474</u>	<u>\$ -</u>	<u>\$ (41,809)</u>

**Changes in Net Position:**

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (35,846)	\$ (5,963)	\$ (41,809)
<b>General revenues:</b>			
<b>Taxes:</b>			
Sales Tax	23,529	-	23,529
Cigar Tax	284	-	284
Use Tax	1,378	-	1,378
<b>Intergovernmental:</b>			
Alcoholic Beverage Tax	5,788	-	5,788
Motor Vehicle Tax	3,545	-	3,545
Gasoline Excise Tax	1,128	-	1,128
Franchise Taxes	6,238	-	6,238
Rental Income	3,825	-	3,825
Miscellaneous Income	6,446	-	6,446
Interest Income	7	7	14
Transfers - Internal Activity	(1,500)	1,500	-
Total general revenues & transfers	<u>50,669</u>	<u>1,507</u>	<u>52,176</u>
Changes in Net Position	14,823	(4,456)	10,367
Net Position - beginning	41,635	18,045	59,680
Net Position - prior year adjustment	-	-	-
Net Position - ending	<u>\$ 56,458</u>	<u>\$ 13,589</u>	<u>\$ 70,047</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements



**TOWN OF WAPANUCKA, OKLAHOMA  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	General Fund	Cemetery Fund	Total Governmental Funds
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 44,326	\$ 12,132	\$ 56,458
<b>TOTAL ASSETS</b>	<b><u>\$ 44,326</u></b>	<b><u>\$ 12,132</u></b>	<b><u>\$ 56,458</u></b>
<b><u>LIABILITIES &amp; FUND EQUITY</u></b>			
<b><u>LIABILITIES:</u></b>			
Accounts Payable	\$ -	\$ -	\$ -
Payroll Taxes Payable	-	-	-
<b>TOTAL LIABILITIES</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b><u>FUND BALANCES:</u></b>			
Restricted	-	12,132	12,132
Assigned	-	-	-
Unassigned	44,326	-	44,326
<b>TOTAL FUND BALANCES</b>	<b><u>44,326</u></b>	<b><u>12,132</u></b>	<b><u>56,458</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 44,326</u></b>	<b><u>\$ 12,132</u></b>	<b><u>\$ 56,458</u></b>

**Reconciliation to Statement of Net Position:**

Amounts reported for governmental activities in the statement of Net Position are different because:

Capital assets used in governmental activities of \$0, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds. -

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. -

**Net Position of Governmental Activities** **\$ 56,458**

**See Accountant's Audit Report & Notes Which Accompany These Financial Statements**

## EXHIBIT D

**TOWN OF WAPANUCKA, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	General Fund	Cemetery Fund	Total Governmental Funds
<b><u>REVENUES:</u></b>			
<b>Taxes:</b>			
Sales Tax	\$ 23,529	\$ -	\$ 23,529
Cigar Tax	284	-	284
Use Tax	1,378	-	1,378
<b>Intergovernmental:</b>			
Alcoholic Beverage Tax	5,788	-	5,788
Motor Vehicle Tax	3,545	-	3,545
Gasoline Excise Tax	1,128	-	1,128
Grants	4,474	-	4,474
Franchise Taxes	6,238	-	6,238
Fire Runs	-	-	-
Fines & Forfeitures	-	-	-
Rental Income	3,825	-	3,825
Donations	70	5,090	5,160
Miscellaneous Income	200	1,086	1,286
Interest Income	4	3	7
<b>TOTAL REVENUES</b>	<b>50,463</b>	<b>6,179</b>	<b>56,643</b>
<b><u>EXPENDITURES:</u></b>			
<b>Current:</b>			
<b>General Government:</b>			
Personal Services	9,323	1,662	10,986
Maintenance & Operations	21,346	2,242	23,588
<b>Public Safety:</b>			
Personal Services	-	-	-
Maintenance & Operations	5,746	-	5,746
Debt Service	-	-	-
Capital Outlay	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>36,416</b>	<b>3,904</b>	<b>40,320</b>
<b>EXCESS OF REVENUES OVER (UNDER)</b>			
<b>EXPENDITURES</b>	<b>14,048</b>	<b>2,275</b>	<b>16,323</b>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>			
Operating Transfers In	-	-	-
Operating Transfers Out	(1,500)	-	(1,500)
Capital Debt Proceeds	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,500)</b>	<b>-</b>	<b>(1,500)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>12,548</b>	<b>2,275</b>	<b>14,823</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>31,779</b>	<b>9,857</b>	<b>41,635</b>
<b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 44,326</b>	<b>\$ 12,132</b>	<b>56,458</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**EXHIBIT D (CONTINUED)**

**TOWN OF WAPANUCKA, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Reconciliation to Statement of Activities:**

<b>Net change in fund balances - total governmental funds</b>	<b>\$</b>	<b>14,823</b>
---	-----------	---------------

**Amounts reported for governmental activities in the Statement of Activities are different because:**

**Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:**

<b>Capital debt obligation principal payments</b>	<b>-</b>
---	----------

**Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:**

<b>Capital Debt Proceeds</b>	<b>-</b>
------------------------------	----------

**Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:**

<b>Capital asset purchases capitalized</b>	<b>-</b>
--	----------

<b>Depreciation expense</b>	<b>-</b>
-----------------------------	----------

<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>14,823</b>
--	-----------	---------------

**See Accountant's Audit Report & Notes Which Accompany These Financial Statements**

**TOWN OF WAPANUCKA, OKLAHOMA  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUND  
JUNE 30, 2014**

	<u>Wapanucka Public Works Authority Enterprise Fund June 30, 2014</u>
<b><u>ASSETS:</u></b>	
<b>Current Assets:</b>	
Cash in Bank - Unrestricted	\$ 13,588
Cash in Bank - Restricted	6,003
	<hr/>
<b>Total Current Assets</b>	<b>19,591</b>
	<hr/>
<b>Noncurrent Assets:</b>	
Capital assets, net of accumulated depreciation	-
	<hr/>
<b>Total Noncurrent Assets</b>	<b>-</b>
	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 19,591</b>
	<hr/> <hr/>
<b><u>LIABILITIES:</u></b>	
<b>Current Liabilities:</b>	
Customer Deposits	\$ 6,003
Notes Payable - Current Maturities	-
	<hr/>
<b>Total Current Liabilities</b>	<b>6,003</b>
	<hr/>
<b>Noncurrent Liabilities:</b>	
Notes Payable	-
Less: Current Maturities	-
	<hr/>
<b>Total Noncurrent Liabilities</b>	<b>-</b>
	<hr/>
<b>TOTAL LIABILITIES</b>	<b>6,003</b>
	<hr/>
<b><u>NET POSITION:</u></b>	
Net investment in capital assets	-
Restricted for debt service	6,003
Unrestricted	7,586
	<hr/>
<b>TOTAL NET POSITION</b>	<b>13,589</b>
	<hr/>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$ 19,591</b>
	<hr/> <hr/>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF WAPANUCKA, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<b>Wapanucka Public Works Authority Enterprise Fund June 30, 2014</b>
<b><u>OPERATING REVENUES:</u></b>	
Charges for Services:	
Water and Sewer Income	\$ 98,394
Miscellaneous Income	1,267
<b>TOTAL OPERATING REVENUES</b>	<b>99,661</b>
<b><u>OPERATING EXPENSES:</u></b>	
Payroll and related costs	46,499
Contracted services	-
Utilities and telephone	5,079
Insurance and bonds	2,851
Repairs and maintenance	39,798
Chemicals	-
Testing and lab fees	4,909
Office supplies and expense	381
Bank Charges	620
Professional Fees	5,488
<b>TOTAL OPERATING EXPENSES</b>	<b>105,624</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>(5,963)</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>	
Grant Revenues	-
Insurance recoveries	-
Capital Outlay	-
Interest Income	7
Interest Expense	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>7</b>
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS &amp; TRANSFERS</b>	<b>(5,956)</b>
Transfers in	1,500
Transfers out	-
<b>CHANGE IN NET POSITION</b>	<b>(4,456)</b>
<b>TOTAL NET POSITION - BEGINNING</b>	<b>18,045</b>
<b>TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT</b>	<b>-</b>
<b>TOTAL NET POSITION - ENDING</b>	<b>\$ 13,589</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF WAPANUCKA, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>June 30, 2014</u>
<b><u>Cash Flows from Operating Activities:</u></b>	
Cash Receipts from Customers	\$ 99,661
Payments to Suppliers and Laborers for Goods & Services	(105,624)
Receipts of Customer Utility Deposits, Net of Refunds	101
Net Cash Provided (Used) by Operating Activities	<u>(5,863)</u>
<b><u>Cash Flows from Non-Capital Financing Activities:</u></b>	
Transfers to other funds	-
Transfers from other funds	1,500
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>1,500</u>
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>	
Capital grants	-
Additions to Capital Assets	-
Insurance Proceeds	-
Loan Proceeds received	-
Principal paid on Notes Payable	-
Interest paid	-
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>-</u>
<b><u>Cash Flows from Investing Activities:</u></b>	
Interest Income	7
Net Cash Provided (Used) by Investing Activities	<u>7</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,355)
Cash & Cash Equivalents, Beginning of Year	23,947
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	<u>\$ 19,591</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>	
Operating Income (Loss)	\$ (5,963)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	-
(Increase)Decrease in Accounts Receivable	-
Increase(Decrease) in Accounts Payable	-
Increase(Decrease) in Water Deposits	101
Net Cash Provided (Used) by Operating Activities	<u>\$ (5,863)</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF WAPANUCKA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. The Reporting Entity

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of Wapanucka
Blended Component Units:	Wapanucka Public Works Authority (WPWA)

PRIMARY GOVERNMENT

The Town of Wapanucka, Oklahoma is a statutory town Government under Oklahoma Statutes. The Town provides the following services: public safety, sanitation, water, public improvements, and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2014, the Town had only one component unit, the Wapanucka Public Works Authority.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the City Council, and there is a financial benefit or burden relationship with the City, or City management has operational responsibility for the component unit; (b) the component

TOWN OF WAPANUCKA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

unit provides services entirely or almost entirely to the City; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the City. The blended component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. Based on the foregoing criteria, the financial statements of the following component units are blended into the accompanying financial statements: Wapanucka Public Works Authority. The City board of trustees and the PWA board of directors are the same.

B. Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Town's funds are grouped into two governmental funds types, general funds and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2014, the Town had governmental funds of general fund and cemetery care. The proprietary funds consisted of the Wapanucka Public Works Authority.

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, cash receipts, cash disbursements, and certain accruals. The Town maintains a separate bank account for each fund. All bank accounts are at institutions, which are FDIC insured.

Governmental Fund Types

The General Fund is the general operating fund of the Town.



TOWN OF WAPANUCKA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

Proprietary Fund Types

The Public Works Authority Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing services, such as sewer, on a continuing basis, are financed through user charges, paid by the general public. The Proprietary fund types utilize the modified cash basis of accounting. Under this method, revenues are recorded when received and expenses are recorded when paid. All proprietary fund fixed assets have been expensed and are not capitalized.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their

TOWN OF WAPANUCKA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

**D. Budget and Budgetary Procedures**

The Town's annual operating budget represents appropriations as authorized by the Town Council and County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The Town's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board of Trustees and County Excise Board. The legal level of control of the budget is the expenditures category within a department.

TOWN OF WAPANUCKA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

E. Cash and Cash Equivalents

The statement of cash flows for proprietary fund types explains the change in cash and cash equivalents during the fiscal period. For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Restricted cash consists of monies held in conjunction with the Wapanucka Public Works Authority customer deposits.

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the Town did not recognize any outstanding reserves as of June 30, 2014.

G. Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not required.

H. Inventories

The Town records materials and supplies inventory as expenditures at the time the inventory is purchased; therefore, no inventory balances for materials and supplies not yet consumed are reported in the combined statement of assets, liabilities and fund balances.

I. Property & Equipment

Public domain (infrastructure) general capital assets consisting of certain improvements other than buildings, such as roads, sidewalks, and bridges, are not capitalized. Property, plant and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure and capitalized at cost. The Town of Wapanucka does not maintain detailed asset records. The town has not established a capitalization threshold because it does not maintain capital asset records

TOWN OF WAPANUCKA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

J. Equity Classification

Net Position is classified and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered

TOWN OF WAPANUCKA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

restricted or committed. Fund Balance may be assigned by the Board.

- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

The purpose of each major special fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Cemetery Fund	Donations

K. Revenues, expenditures and expenses

Property Tax

For the year ended June 30, 2014, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

Governmental Fund Types - By Character: Current(further classified by activity) Capital Outlay

Proprietary Fund Types - By Operating and Non-Operating

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

TOWN OF WAPANUCKA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

L. Risk Management

Significant losses are covered by commercial insurance for all Town operations.

M. Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The annual budget was has not been prepared or filed with the State Auditor and Inspector's office.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are fund balance and retained earnings deficits for the Town for this fiscal year. This is due in part to the fact that the Town does not report Capital Assets in its financial statements. The Long-term Debt related to these assets is included in the financial statements and therefore creates negative fund balances.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2014, the Town held deposits of approximately \$76,049 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the

TOWN OF WAPANUCKA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

Town's name. The Town of Wapanucka is considered a separate entity from the Wapanucka Public Works Authority for FDIC deposit insurance.

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

Restricted cash represents amounts maintained in separate bank accounts for the purpose of segregating funds. Restricted cash consisted of the following:

Customer Deposits	\$ 6,003
REAP Grant Account	<u>-0-</u>
Total Restricted Cash	<u>\$ 6,003</u> =====

TOWN OF WAPANUCKA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

NOTE 5 - CAPITAL ASSETS

The Town does not maintain capital assets records.

NOTE 6 - LONG-TERM DEBT

The Town no longer has any long-term debt.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ -

Debt Services Requirements to Maturity

There are no debt service requirements because both loans were paid in full during the previous year.

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The Town's restricted net position are described in Note 4 above.

Governmental Fund Balances

Town of Wapanucka, Oklahoma			
Disclosure of Fund Balances Reported on Balance Sheet			
For Fiscal Year Ending June 30, 2014			
	General Fund	Cemetery Fund	Total Governmental Funds
FUND BALANCES:			
Restricted for:			
Cemetery Fund	\$ -	\$ 12,132	\$ 12,132
Unassigned	44,326	-	44,326
Total	\$ 44,326	\$ 12,132	\$ 56,458



TOWN OF WAPANUCKA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

NOTE 8 - COMMITMENTS & CONTINGENCIES

Litigation

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year.

The attorney advised of the following litigation for the Town of Wapanucka:

1. A quiet title lawsuit styled *Greg Miller v. State of Oklahoma, et al.*, Johnston County Case No. CV-2013-38, filed October 4, 2013. Said quiet title was concluded April 17, 2014. No costs incurred by the Town of Wapanucka.
2. An Application to Vacate Public Way lawsuit styled *Tracy Mashelle Collins v. Town of Wapanucka*, Johnston County Case No. CV-2014-20, filed June 20, 2014. Case is still ongoing. The attorney believes there will be no costs incurred by the Town.

Federally Assisted Programs

In the normal course of operations, the Town participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Compensated Absences - Compensated absences have not been determined because the Town prepares its financial statements on the modified cash basis of accounting. According to generally accepted accounting principles the liability for compensated absences should be accrued.

NOTE 9 - OPERATING TRANSFERS

Interfund operating transfers for the year ended June 30, 2014, were as follows:

TOWN OF WAPANUCKA, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

OPERATING TRANSFERS:	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL:		
Cemetery Fund	\$ -	\$ -
Wapanucka Public Works Authority	-	1,500.00
Total General Fund	<u>\$ -</u>	<u>\$ 1,500.00</u>
SPECIAL REVENUE FUNDS:		
Cemetery Fund:		
General Fund	\$ -	\$ -
Wapanucka Public Works Authority	-	-
Total Special Revenue Funds	<u>\$ -</u>	<u>\$ -</u>
ENTERPRISE FUNDS		
Wapanucka Public Works Authority		
General Fund	\$ 1,500.00	\$ -
Cemetery Fund	-	-
Total Enterprise Funds	<u>\$ 1,500.00</u>	<u>\$ -</u>
	<u>\$ 1,500.00</u>	<u>\$ 1,500.00</u>

NOTE 10 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through December 9, 2014, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2014.

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

---

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Town Council  
Town of Wapanucka, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wapanucka, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of Wapanucka, Oklahoma's basic financial statements, and have issued our report thereon dated December 9, 2014, which was qualified for the improper capital asset recordkeeping for the governmental activities and was an adverse opinion because of the water receipt discrepancy for the business-type activities.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Wapanucka's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Wapanucka's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Wapanucka's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Items 14-01, 14-02 and 14-03.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Wapanucka's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are included in the Schedule of Findings as Item 14-04. The results of our tests disclosed no instances of other matters that are required to be reported under Government Auditing Standards.

## Town of Wapanucka's Response to Findings

Town of Wapanucka's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Wapanucka's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC  
December 9, 2014

TOWN OF WAPANUCKA, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2014

Internal Control Findings:

Item 14-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the Town.

Item 14-02: Meter Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The Authority does not keep a ledger regarding the balance of customer meter deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The Authority is aware of the problem, however, some of the much older records were several years ago, and reconstruction of the ledger is not feasible.

TOWN OF WAPANUCKA, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2014

Item 14-03: Bank Deposits

Criteria: Daily bank deposits reduce the risk of lost or stolen cash on hand.

Condition: Receipts are not being deposited on a daily basis. During the current audit, it was noted that deposits of revenues continue to be held in some cases for extended periods. Some tax receipts from early in the fiscal year that were confirmed with outside entities have still not been deposited at yearend.

Cause: The cost of fuel for going to the bank to make daily deposits is such that the Town is not cost effectively able to make daily deposits.

Effect: These conditions result in weakened control over cash receipts and could result in excess cash being maintained on-hand during the month or checks being misplaced or lost.

Recommendation: All receipts should be deposited daily and not retained on-site.

Response: At this time the Town is not able to cost effectively make such deposits.

COMPLIANCE FINDINGS;

Item 14-04: Payroll Reporting and Compliance

Criteria: The Town is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, 940, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: Payroll taxes for previous & current years for the Town and PWA were not paid in a timely manner and are still past due. The payroll tax forms for those time period were not file either.

TOWN OF WAPANUCKA, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2014

Cause/Effect: The past due taxes have left the Town subject to additional tax liability, penalties, and interest charges by the taxing agencies.

Recommendation: The Town needs to get into compliance with the filing requirements and pay the past due balances.

Response: Payroll tax forms that were not previously filed have been prepared and filed. The Town is trying to get caught up on past due amounts and has monthly payments plans with the taxing agencies to get caught up.